

FRANKLIN MEDICAL CENTER
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
FOR THE YEARS ENDED
APRIL 30, 2009, 2008 AND 2007

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 11/11/09



LESTER, MILLER & WELLS
A CORPORATION OF CERTIFIED PUBLIC ACCOUNTANTS

HOSPITAL SERVICE DISTRICT NO. 1
OF THE PARISH OF FRANKLIN, STATE OF LOUISIANA
d/b/a FRANKLIN MEDICAL CENTER
HOSPITAL ENTERPRISE FUND
YEARS ENDED APRIL 30, 2009, 2008 AND 2007

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Hospital Service District No. 1
Of the Parish of Franklin, State of Louisiana
Franklin Medical Center

Management's Discussion and Analysis

This section of the annual financial report for Hospital Service District No. 1 of Franklin Parish, State of Louisiana d/b/a Franklin Medical Center (the "Medical Center") provides background information and management's analysis of the Medical Center's financial performance for the fiscal years that ended April 30, 2009, 2008, and 2007. Please read it in conjunction with the financial statements beginning on page 3 and notes to the financial statements beginning on page 7 in this report.

Financial Highlights

Net patient revenue for FY 2009, increased by \$382,313 or 2.7%, from \$14,360,229 in FY 2008 due to a slight increase of inpatient admissions. Overall patient days increased from 5,434 for FY 2008 to 5,652 for the year ending 4/30/09. This was an increase of 218 patient days from the prior year. Other operating revenue decreased by \$90,629 as a result of a termination of rental contract for hospital space.

Rural Health Clinic charges increased by \$81,723 or 3.0% for the year ending 4/30/09. Charges increased from \$2,757,503 for 2008 to \$2,839,226 for 2009. This increase was primarily due to the change in doctors covering the clinics.

Long-term debt decreased by \$227,452 or 28.8% in FY 2009 to \$562,543.

Current assets increased by \$330,277 or 5.6% for the year ending 4/30/09. This increase is due to \$964,790 in Medicare PIP overpayments that occurred during the previous fiscal year.

The net assets increased by \$614,538, 8.2%, which is the net income for the year ending 4/30/09. Net assets as of 4/30/09 were \$8,141,744, up from \$7,527,206 as of 4/30/08.

Expenses for the year ending 4/30/09 decreased by \$666,691 or 4.3%. Total expenses for the year ending 4/30/2009 were \$14,875,025 down from \$15,541,716 as of 4/30/2008. A decrease in employee benefits and miscellaneous service fees was the primary reason for the overall decrease in expenses. Other expenses decreased \$302,213, down from \$2,968,434 as of 4/30/08 to \$2,666,221 as of 4/30/09.

Using this Annual Report

The Medical Center's financial statements consist of three statements: a balance sheet, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows. These statements provide information about the Medical Center's activities including resources held by the Medical Center.

The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Assets

Both statements report information about Franklin Medical Center's resources and its activities that describe the financial results of the fiscal year and Franklin Medical Center's financial position as of the end of the year. They report Franklin Medical Center's net assets and changes in them.

Hospital Service District No. 1
Of the Parish of Franklin, State of Louisiana
Franklin Medical Center

Management's Discussion and Analysis (continued)

Using this Annual Report (Continued)

Net assets are the difference between assets and liabilities. Over time, increases or decreases in Franklin Medical Center's net assets are one indicator of whether Franklin Medical Center's patient base, measure of the quality of services provided, and local, state, and federal economic factors should also be considered.

The Statement of Cash Flows

The statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing and capital and non-capital financing activities. It describes sources of cash, uses of cash, and the change in cash balance during the fiscal year.

Franklin Medical Center's Net Assets

Franklin Medical Center's net assets are the difference between assets and liabilities reported in the balance sheet. As discussed under the highlights section, Franklin Medical Center's net assets (inclusive of donated assets) increased by \$614,538. Also see the highlights section for a discussion of increases in total assets, current assets and liabilities (accounts payable). Capital assets and long-term debt are shown in the following table.

**TABLE 1
Condensed Balance Sheet**

	April 30,			
	2009	2008	2007	2006
Total current and other assets	\$ 6,283,839	\$ 5,979,762	\$ 5,194,860	\$ 4,630,025
Capital assets, net	3,779,511	3,987,392	4,043,317	4,127,827
Assets whose use is limited	503,289	532,459	591,270	725,013
Total assets	\$ 10,566,639	\$ 10,499,613	\$ 9,829,447	\$ 9,482,865
Total current liabilities	\$ 2,056,403	\$ 2,341,238	\$ 1,579,280	\$ 1,447,288
Long-term debt, net of current maturities	418,492	631,169	150,139	237,182
Total liabilities	2,474,895	2,972,407	1,729,419	1,684,470
Invested in capital assets, net of related debt	3,216,968	3,197,397	3,715,906	3,721,680
Restricted net assets	200,490	200,490	219,780	238,074
Unrestricted net assets	4,674,286	4,129,319	4,164,342	3,838,641
Total liabilities and net assets	\$ 10,566,639	\$ 10,499,613	\$ 9,829,447	\$ 9,482,865

Hospital Service District No. 1
Of the Parish of Franklin, State of Louisiana
Franklin Medical Center

Management's Discussion and Analysis (continued)

Required Financial Statements

The Basic Financial Statements of the Hospital report information about the Hospital using Governmental Accounting Standards Board (GASB) accounting principles. These statements offer short-term and long-term financial information about its activities. The Balance Sheets include all of the Hospital's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Hospital and assessing the liquidity and financial flexibility of the Hospital. All of the current year's revenues and expenses are accounted for in the Statement of Revenue, Expenses and Changes in Net Assets. This statement measures improvements in the Hospital's operations over the past three years and can be used to determine whether the Hospital has been able to recover all of its costs through its patient service revenue and other revenue sources. The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Hospital's cash from operations, investing and financing activities, and to provide answers to such questions as where did cash come from, what was cash used for and what was the change in cash balance during the reporting period.

Financial Analysis of the Hospital

The Balance Sheet and the Statement of Revenue, Expenses and Changes in Net Assets report information about the Hospital's activities. These two statements report the net assets of the Hospital and changes in them. Increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. However, other financial factors such as changes in the healthcare industry, changes in Medicare and Medicaid regulations, and changes in managed care contracting should also be considered.

Hospital Service District No. 1
Of the Parish of Franklin, State of Louisiana
Franklin Medical Center

Management's Discussion and Analysis (continued)

Summary of Revenue, Expenses and Changes in Net Assets

TABLE 2
Condensed Statements of Revenue, Expenses and Changes in Net Assets

	Years Ended April 30,			
	2009	2008	2007	2006
Net patient service revenue	\$ 14,692,542	\$ 14,360,229	\$ 16,427,769	\$ 13,929,569
Other revenue	388,032	478,661	330,237	248,920
Total operating revenue	15,080,574	14,838,890	16,758,006	14,178,489
Salaries and employee benefits	7,974,181	8,199,503	8,815,407	8,080,656
Pension plan	83,420	100,740	88,005	78,184
Supplies and other	765,737	859,982	1,066,458	1,499,917
Professional, mgt. and consulting fees	2,427,235	2,422,169	2,547,332	2,590,404
Other expense	2,666,221	2,968,434	3,133,982	2,414,446
Insurance	264,524	260,403	249,598	246,225
Depreciation and amortization	693,707	730,485	701,331	719,457
Total operating expenses	14,875,025	15,541,716	16,602,113	15,629,289
Operating income (loss)	205,549	(702,826)	155,893	(1,450,800)
Nonoperating income	56,190	130,004	145,740	55,419
Revenues in excess of expenses	261,739	(572,822)	301,633	(1,395,381)
Capital grants	302,799	-0-	-0-	-0-
Increase (decrease) in net assets	564,538	(572,822)	301,633	(1,395,381)
Net assets - beginning of year	7,527,206	8,100,028	7,798,395	9,193,776
Net assets - end of year	\$ 8,091,744	\$ 7,527,206	\$ 8,100,028	\$ 7,798,395

Sources of Revenue

Operating Revenue

During fiscal year 2009, the Hospital derived the majority of its total revenue from patient service revenue. Patient service revenue includes revenue from the Medicare and Medicaid programs and patients, or their third-party payors, who receive care in the Hospital's facilities. Reimbursement for the Medicare and Medicaid programs and the third-party payors is based upon established contracts.

Table 3 presents the relative percentages of gross charges billed for patient services for Medicare and Medicaid for the fiscal years ended April 30, 2009, 2008, 2007 and 2006.

Hospital Service District No. 1
Of the Parish of Franklin, State of Louisiana
Franklin Medical Center

Management's Discussion and Analysis (continued)

TABLE 3
Medicare & Medicaid Patient Revenue

	Years ended April 30,			
	2009	2008	2007	2006
Medicare and Medicaid patient charges	\$ 18,774,616	\$ 17,351,913	\$ 17,724,066	\$ 17,956,135
Contractual adjustments	7,119,260	6,565,438	4,986,566	6,955,237
Net Medicare and Medicaid revenue	\$ 11,655,356	\$ 10,786,475	\$ 12,737,500	\$ 11,000,898
Percent of total patient gross charges	76.88%	73.04%	74.00%	74.93%
Percent of total patient revenues	79.06%	75.11%	77.54%	78.98%

Operating and Financial Performance

TABLE 4
Patient Statistics

	Year ended April 30,			
	2009	2008	2007	2006
Number of patient days				
Medicare acute care	3,621	3,547	4,036	4,366
Psychiatric	-0-	56	666	839
Swingbed	261	274	147	396
Medicaid acute care	930	854	1,161	1,365
Other acute care	840	703	780	980
Total	5,652	5,434	6,790	7,946
Number of patient discharges				
Medicare acute care	823	818	1,012	1,050
Psychiatric	-0-	6	82	90
Swingbed	47	47	25	42
Medicaid acute care	300	283	410	440
Other acute care	266	251	304	346
Total	1,436	1,405	1,833	1,968
Average length of patient stay				
Medicare acute care	4.4	4.3	4.0	4.2
Psychiatric	N/A	9.3	8.1	9.3
Swingbed	5.6	5.8	5.9	9.4
Medicaid acute care	3.1	3.0	2.8	3.1
Other acute care	3.2	2.8	2.6	2.8
Average length of stay for acute care	3.9	3.8	3.5	3.7

Hospital Service District No. 1
Of the Parish of Franklin, State of Louisiana
Franklin Medical Center

Management's Discussion and Analysis (continued)

Capital Assets

**TABLE 5
Capital Assets**

	April 30			
	2009	2008	2007	2006
Land and land improvements	\$ 197,500	\$ 197,500	\$ 177,500	\$ 177,500
Buildings	4,374,961	4,374,961	4,318,514	4,318,514
Fixed equipment	2,580,841	2,544,203	2,529,238	2,529,238
Major movable equipment	7,721,245	7,642,015	7,506,730	6,948,385
Subtotal	14,874,547	14,758,679	14,531,982	13,973,637
Less accumulated depreciation and amortization	11,442,717	10,775,210	10,520,940	9,845,810
Construction-in-progress	347,681	3,923	32,275	-0-
Net property, plant and equipment	\$ 3,779,511	\$ 3,987,392	\$ 4,043,317	\$ 4,127,827

Long-Term Debt

Long-term debt consists of capital leases. During FY 2009, the Hospital made payments of \$227,452. In 2009 long-term debt decreased by \$227,452 or 28.8%, including paying off two notes. Long-term debt increased by \$462,584 or 141.3% in 2008, as a result of the sixteen slice CT Scanner acquired from General Electric.

Contacting the Hospital's Financial Manager

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Hospital administration.



LESTER, MILLER & WELLS

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Independent Auditors' Report

To the Board of Commissioners
Hospital Service District No. 1
Parish of Franklin, State of Louisiana
Winnsboro, Louisiana

We have audited the accompanying financial statements of Hospital Service District No. 1, Parish of Franklin (the Hospital), a component unit of the Franklin Parish Police Jury, as of and for the years ended April 30, 2009, 2008 and 2007, as listed in the foregoing table of contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hospital Service District No. 1, Parish of Franklin, as of April 30, 2009, 2008 and 2007, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 19, 2009, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audits were performed for the purpose of forming an opinion on the financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Board of Commissioners
Hospital Service District No. 1
Parish of Franklin, State of Louisiana
Winnsboro, Louisiana
Page Two

Management's discussion and analysis on pages "i" through "vi" is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Lester, Miller & Wells

Certified Public Accountants
Alexandria, Louisiana
October 19, 2009



FRANKLIN MEDICAL CENTER
BALANCE SHEETS
APRIL 30,

ASSETS	<u>2009</u>	<u>2008</u>	<u>2007</u>
Current Assets			
Cash and cash equivalents (Note 3)	\$ 2,150,734	\$ 700,805	\$ 135,316
Short-term investments (Note 3)	2,421,944	3,145,365	3,141,704
Accounts receivable, net of allowances for uncollectibles (Note 4)	1,110,794	1,039,857	945,189
Estimated third-party payor settlements	278,985	720,390	597,813
Inventories	163,602	165,081	167,282
Prepaid expenses	77,213	101,497	99,589
Total Current Assets	<u>6,203,272</u>	<u>5,872,995</u>	<u>5,086,893</u>
Non-Current Assets			
Property, plant and equipment, net (Note 5 and 6)	3,779,511	3,987,392	4,043,317
Organizational costs	30,567	56,767	82,967
Notes receivable	50,000	50,000	25,000
Assets whose use is limited (Note 7)	503,289	532,459	591,270
Total Assets	<u>\$ 10,566,639</u>	<u>\$ 10,499,613</u>	<u>\$ 9,829,447</u>
LIABILITIES AND NET ASSETS			
Current Liabilities			
Accounts payable	\$ 609,721	\$ 607,250	\$ 871,405
Accrued salary and payroll taxes	255,532	247,364	168,533
Accrued vacation payable (Note 8)	247,401	223,997	232,070
Estimated third-party payor settlements	799,698	1,103,801	130,000
Current portion of long-term debt (Note 9)	144,051	158,826	177,272
Total Current Liabilities	<u>2,056,403</u>	<u>2,341,238</u>	<u>1,579,280</u>
Long-term Liabilities			
Capital lease obligations (Note 9)	418,492	631,169	150,139
Net Assets			
Invested in capital assets, net of related debt	3,216,968	3,197,397	3,715,906
Restricted	200,490	200,490	219,780
Unrestricted	4,674,286	4,129,319	4,164,342
Total Net Assets	<u>8,091,744</u>	<u>7,527,206</u>	<u>8,100,028</u>
Total Liabilities and Net Assets	<u>\$ 10,566,639</u>	<u>\$ 10,499,613</u>	<u>\$ 9,829,447</u>

See accompanying notes to financial statements.

FRANKLIN MEDICAL CENTER
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED APRIL 30,

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Revenues			
Net patient service revenues (Note 10)	\$ 14,692,542	\$ 14,360,229	\$ 16,427,769
Grants	169,795	159,398	112,189
Non-restricted contributions	2,664	5,960	103
Gain (loss) on disposal of assets	-0-	(106,655)	-0-
Other operating revenues	<u>215,573</u>	<u>419,958</u>	<u>217,945</u>
 Total Revenues	 <u>15,080,574</u>	 <u>14,838,890</u>	 <u>16,758,006</u>
 Expenses			
Salaries	6,402,554	6,463,620	6,956,589
Benefits and payroll taxes	1,655,047	1,836,623	1,946,823
Supplies and drugs	765,737	859,982	1,066,458
Professional fees	2,427,235	2,422,169	2,547,332
Other expenses	2,666,221	2,968,434	3,133,982
Insurance	264,524	260,403	249,598
Depreciation and amortization	<u>693,707</u>	<u>730,485</u>	<u>701,331</u>
 Total Expenses	 <u>14,875,025</u>	 <u>15,541,716</u>	 <u>16,602,113</u>
 Operating Income (Loss)	 <u>205,549</u>	 <u>(702,826)</u>	 <u>155,893</u>
 Nonoperating Revenues (Expenses)			
Interest income	126,654	169,762	157,725
Interest expense	<u>(70,464)</u>	<u>(39,758)</u>	<u>(11,985)</u>
 Excess of Revenues over Expenses before Capital Grants	 261,739	 (572,822)	 301,633
 Capital Grants	 <u>302,799</u>	 <u>-0-</u>	 <u>-0-</u>
 Increase (Decrease) in Net Assets	 564,538	 (572,822)	 301,633
 Beginning Net Assets	 <u>7,527,206</u>	 <u>8,100,028</u>	 <u>7,798,395</u>
 Ending Net Assets	 \$ <u>8,091,744</u>	 \$ <u>7,527,206</u>	 \$ <u>8,100,028</u>

See accompanying notes to financial statements.

FRANKLIN MEDICAL CENTER
STATEMENTS OF CASH FLOWS
YEARS ENDED APRIL 30,

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:			
Cash received from patients and third-party payors	\$ 14,758,907	\$ 15,116,785	\$ 16,266,087
Other receipts from operations	388,032	585,316	330,237
Cash payments to employees and for employee-related cost	(8,026,029)	(8,229,485)	(8,996,876)
Cash payments for other operating expenses	<u>(6,165,947)</u>	<u>(6,814,608)</u>	<u>(6,663,734)</u>
Net cash provided (used) by operating activities	<u>954,963</u>	<u>658,008</u>	<u>935,714</u>
Cash flows from investing activities:			
Cash invested in certificates of deposit	(4,308,202)	(2,030,113)	(820,121)
Cash proceeds from certificates of deposit	5,060,793	2,085,263	133,743
Loan to physicians	-0-	(25,000)	(25,000)
Interest income	<u>126,654</u>	<u>169,762</u>	<u>157,725</u>
Net cash provided (used) by investing activities	<u>879,245</u>	<u>199,912</u>	<u>(553,653)</u>
Cash flows from capital and related financing activities:			
Acquisition of property, plant, and equipment	(459,626)	(6,103)	(500,390)
Cash received from sale of equipment	-0-	17,818	-0-
Cash received from capital-related grant	302,799	-0-	-0-
Principal payments on long-term debt	<u>(227,452)</u>	<u>(304,146)</u>	<u>(168,966)</u>
Net cash provided (used) by capital and related financing activities	<u>(384,279)</u>	<u>(292,431)</u>	<u>(669,356)</u>
Net increase (decrease) in cash and cash equivalents	1,449,929	565,489	(287,295)
Beginning cash and cash equivalents	<u>700,805</u>	<u>135,316</u>	<u>422,611</u>
Ending cash and cash equivalents	\$ <u>2,150,734</u>	\$ <u>700,805</u>	\$ <u>135,316</u>

See accompanying notes to financial statements.

FRANKLIN MEDICAL CENTER
STATEMENTS OF CASH FLOWS (Continued)
YEARS ENDED APRIL 30,

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Supplemental disclosures of cash flow information:			
Cash paid during the period for interest	\$ <u>(70,464)</u>	\$ <u>(39,758)</u>	\$ <u>(11,985)</u>
Equipment acquired through capital lease agreements	\$ <u>-0-</u>	\$ <u>766,730</u>	\$ <u>90,230</u>
Reconciliation of income from operations to net cash provided by operating activities:			
Operating income (loss)	\$ 205,549	\$ (702,826)	\$ 155,893
Adjustments to reconcile revenue in excess of expenses to net cash provided by operating activities:			
Depreciation and amortization	693,707	730,485	701,331
Provision for bad debts	1,694,567	1,944,098	1,674,351
Interest expense considered capital related	(70,464)	(39,758)	(11,985)
(Gain) loss on sale of equipment	-0-	106,655	-0-
Changes in current assets (increase) decrease			
Accounts receivable	(1,765,504)	(2,038,766)	(1,283,612)
Estimated third-party payor settlements	441,405	(122,577)	(430,175)
Inventories	1,479	2,201	6,797
Prepaid expenses	24,284	(1,908)	(571)
Changes in current liabilities increase (decrease)			
Accounts payable and accrued expenses	2,471	(264,155)	339,395
Accrued salary and payroll taxes	8,168	78,831	(119,865)
Accrued vacation payable	23,404	(8,073)	26,401
Estimated third-party payor settlements	<u>(304,103)</u>	<u>973,801</u>	<u>(122,246)</u>
Net cash provided (used) by operating activities	\$ <u>954,963</u>	\$ <u>658,008</u>	\$ <u>935,714</u>

See accompanying notes to financial statements.

FRANKLIN MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED APRIL 30, 2009, 2008 AND 2007

NOTE 1 - ORGANIZATION AND OPERATIONS

Legal Organization

Franklin Parish Hospital Service District No. 1 (the Hospital or the District) was created by an ordinance of the Franklin Parish Police Jury on November 2, 1965.

The District is a political subdivision of the Franklin Parish Police Jury whose jurors are elected officials. The Hospital's commissioners are appointed by the Franklin Parish Police Jury. As the governing authority of the Parish, for reporting purposes, the Franklin Parish Police Jury is the financial reporting entity for the Hospital. Accordingly, the Hospital was determined to be a component unit of the Franklin Parish Police Jury based on Statement No. 14 of the National Committee on Governmental Accounting. The accompanying financial statements present information only on the funds maintained by the governmental services provided by that governmental unit or the other governmental units that comprise the financial reporting entity.

The hospital facility was originally built by the Franklin Parish Police Jury which issued ad valorem tax bonds to finance its construction. The District leases the hospital facility and some equipment from the Police Jury as explained further in Note 6. All transactions related to the original bonds sold to finance the facility, the related interest expense, and tax revenues for the payment of the bonds are reflected in the financial statements of Franklin Parish Police Jury. The final bond redemption was made during April 1986, thereby eliminating the Police Jury bond indebtedness related to the District.

Nature of Business

The District provides outpatient, skilled nursing (through "swing-beds"), emergency, inpatient acute hospital services, and three rural health clinics.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Enterprise Fund

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Basis of Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, as amended, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements. Such accounting and reporting procedures conform to the requirements of Louisiana Revised Statute 24:514 and to the guide set forth in the Louisiana Governmental Audit Guide, the AICPA, Audit and Accounting Guide - Health Care Organizations, published by the American Institute of Certified Public Accountants.

FRANKLIN MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED APRIL 30, 2009, 2008 AND 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of deposits in checking and money market accounts and certificates of deposit with original maturities of 90 days or less. Certificates of deposit with original maturities over 90 days are classified as short-term investments. Cash and cash equivalents and short-term investments are stated at cost, which approximates market value. The caption "cash and cash equivalents" does not include amounts whose use is limited or temporary cash investments.

Credit Risk

The District provides medical care primarily to Franklin Parish residents and grants credit to patients, substantially all of whom are local residents.

The Hospital's estimate of collectibility is based on evaluation of historical collections compared to gross charges and an analysis of aged accounts receivable to establish an allowance for uncollectible accounts.

Significant Concentration of Economic Dependence

The District has an economic dependence on a small number of staff physicians. These physicians admit over 90% of the Hospital's patients. The Hospital also has an economic dependence on Medicare and Medicaid as sources of payments as shown in the table in Note 10. Changes in federal or state legislation or interpretations of rules have a significant impact on the Hospital.

Net Patient Service Revenues

The District has entered into agreements with third-party payors, including government programs, health insurance companies, and managed care health plans, under which the Hospital is paid based upon established charges, the cost of providing services, predetermined rates per diagnosis, fixed per diem rates, or discounts from established charges.

Revenues are recorded at estimated amounts due from patients and third-party payors for the Hospital services provided. Settlements under reimbursement agreements with third-party payors are estimated and recorded in the period the related services are rendered and are adjusted in future periods as final settlements are determined.

Inventory

Inventories are stated at the lower of cost determined by the first-in, first-out, or market basis.

Income Taxes

The District's income is exempt from taxation.

FRANKLIN MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED APRIL 30, 2009, 2008 AND 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, Plant and Equipment

Property, plant and equipment is recorded at cost for purchased assets or at fair market value on the date of any donation. The Hospital uses straight-line method of determining depreciation for financial reporting and third-party reimbursement. The following estimated useful lives are generally used.

Buildings and Improvements	5 to 40 years
Machinery and Equipment	3 to 20 years
Furniture and Fixtures	3 to 20 years

Expenditures for additions, major renewals and betterments are capitalized and expenditures for maintenance and repairs are charged to operations as incurred.

The cost of assets retired or otherwise disposed of and the related accumulated depreciation are eliminated from the accounts in the year of disposal. Gains or losses resulting from property disposal are credited or charged to operations currently.

Net Assets

Net assets consist of net assets invested in capital assets (property and equipment), net of related debt; restricted net assets; and unrestricted net assets. Net assets invested in capital assets, net of related debt consist of capital assets net of accumulated depreciation and outstanding balance on any related debt that is attributable to the acquisition of the capital assets. Restricted net assets are those assets that are externally restricted by creditors, grantors, contributors, or laws and regulations, or those restricted by constitutional provisions and enabling legislation. Unrestricted net assets consist of all other assets. When both restricted and unrestricted resources are available for use, it is the Hospital's policy to use unrestricted resources first, then restricted resources as they are needed.

Revenue and Expenses

The Hospital's statement of revenues, expenses and changes in net assets distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Hospital's principal activity. Nonexchange revenues are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform to the current year classification.

FRANKLIN MEDICAL CENTER
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED APRIL 30, 2009, 2008 AND 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

NOTE 3 - DEPOSITS AND INVESTMENTS

Investing is performed in accordance with investment policies complying with state statutes. Funds may be invested in direct obligations of the United States Government and its agencies pledged by its full faith and credit, certificates of deposit and savings accounts which are secured by FDIC or pledge of securities, and government backed mutual or trust funds.

Custodial Credit Risk – Custodial credit risk for deposits is the risk that in the event of a bank failure, the Hospital's deposits may not be returned to it. Louisiana state statutes require that all of the deposits of the Hospital be protected by insurance or collateral. The fair value of the collateral pledged must equal 100% of the deposits not covered by insurance. As of April 30, 2009 and 2007, the balances reported by financial institutions for cash totaled \$3,892,237 and \$3,379,378, respectively. The deposits were entirely insured or entirely collateralized by securities held by the pledging bank's trust department in the Hospital's name as of April 30, 2009 and 2007. As of April 30, 2008, the balances reported by financial institutions for cash totaled \$4,441,231. Of the total, \$2,652,768 was covered by FDIC, \$1,611,918 was collateralized with securities held by the pledging bank in the District's name, and \$176,545 was not collateralized.

Interest Rate Risks – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer an investment takes to mature, the greater the sensitivity of its fair value to changes in market interest rates.

The carrying amounts of deposits and investments are included in the Hospital's balance sheets as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Carrying amount			
Deposits	\$ 2,150,734	\$ 700,805	\$ 135,316
Investments	<u>2,925,233</u>	<u>3,677,824</u>	<u>3,732,974</u>
	<u>\$ 5,075,967</u>	<u>\$ 4,378,629</u>	<u>\$ 3,868,290</u>
Included in the following balance sheet captions			
Cash and cash equivalents	\$ 2,150,734	\$ 700,805	\$ 135,316
Short-term investments	2,421,944	3,145,365	3,141,704
Assets whose use is limited	<u>503,289</u>	<u>532,459</u>	<u>591,270</u>
	<u>\$ 5,075,967</u>	<u>\$ 4,378,629</u>	<u>\$ 3,868,290</u>

FRANKLIN MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED APRIL 30, 2009, 2008 AND 2007

NOTE 4 - ACCOUNTS RECEIVABLE

A summary of accounts receivable is presented below:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Patients	\$ 4,840,534	\$ 3,834,010	\$ 4,299,816
Other	<u>8,260</u>	<u>66,847</u>	<u>54,373</u>
Total	4,848,794	3,900,857	4,354,189
Estimated allowances for uncollectibles	<u>(3,738,000)</u>	<u>(2,861,000)</u>	<u>(3,409,000)</u>
Net accounts receivable	\$ <u>1,110,794</u>	\$ <u>1,039,857</u>	\$ <u>945,189</u>

The following is a summary of the mix of receivables from patients and third-party payors at April 30:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Medicare	6%	9%	7%
Medicaid	8%	9%	7%
Commercial and other third-party payors	7%	11%	13%
Patients	<u>79%</u>	<u>71%</u>	<u>73%</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT

The following is a summary of property, plant and equipment, and related accumulated depreciation at April 30:

	<u>2008</u>	<u>Additions</u>	<u>Deductions</u>	<u>2009</u>
Land	\$ 197,500	\$ -0-	\$ -0-	\$ 197,500
Buildings	4,374,961	-0-	-0-	4,374,961
Leasehold improvements	2,544,204	36,637	-0-	2,580,841
Furniture and equipment	7,642,014	79,231	-0-	7,721,245
Construction in progress	<u>3,923</u>	<u>347,681</u>	<u>3,923</u>	<u>347,681</u>
Total	14,762,602	463,549	3,923	15,222,228
Accumulated depreciation	<u>10,775,210</u>	<u>667,507</u>	<u>-0-</u>	<u>11,442,717</u>
Net	\$ <u>3,987,392</u>	\$ <u>(203,958)</u>	\$ <u>3,923</u>	\$ <u>3,779,511</u>

FRANKLIN MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED APRIL 30, 2009, 2008 AND 2007

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT (Continued)

	<u>2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>2008</u>
Land	\$ 177,500	\$ 20,000	\$ -0-	\$ 197,500
Buildings	4,318,514	56,447	-0-	4,374,961
Leasehold improvements	2,529,238	14,966	-0-	2,544,204
Furniture and equipment	7,506,730	709,772	574,488	7,642,014
Construction in progress	<u>32,275</u>	<u>28,095</u>	<u>56,447</u>	<u>3,923</u>
 Total	 14,564,257	 829,280	 630,935	 14,762,602
Accumulated depreciation	<u>10,520,940</u>	<u>704,285</u>	<u>450,015</u>	<u>10,775,210</u>
 Net	 <u>\$ 4,043,317</u>	 <u>\$ 124,995</u>	 <u>\$ 180,920</u>	 <u>\$ 3,987,392</u>
	 <u>2006</u>	 <u>Additions</u>	 <u>Deductions</u>	 <u>2007</u>
Land	\$ 177,500	\$ -0-	\$ -0-	\$ 177,500
Buildings	4,318,514	-0-	-0-	4,318,514
Leasehold improvements	2,529,238	-0-	-0-	2,529,238
Furniture and equipment	6,948,385	558,345	-0-	7,506,730
Construction in progress	<u>-0-</u>	<u>32,275</u>	<u>-0-</u>	<u>32,275</u>
 Total	 13,973,637	 590,620	 -0-	 14,564,257
Accumulated depreciation	<u>9,845,810</u>	<u>675,130</u>	<u>-0-</u>	<u>10,520,940</u>
 Net	 <u>\$ 4,127,827</u>	 <u>\$ (84,510)</u>	 <u>\$ -0-</u>	 <u>\$ 4,043,317</u>

NOTE 6 - HOSPITAL FACILITY AND EQUIPMENT

As discussed in Note 1, the hospital facility and original equipment were acquired with the proceeds of ad valorem tax bonds issued by the Franklin Parish Police Jury.

Effective September 29, 1992, the Police Jury renewed its lease to the District. The lease has a term of 30 years and may be terminated at any time by mutual consent of both entities. The lease does not call for the District to pay consideration to the Police Jury.

FRANKLIN MEDICAL CENTER
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED APRIL 30, 2009, 2008 AND 2007

NOTE 6 - HOSPITAL FACILITY AND EQUIPMENT (Continued)

The following property, plant and equipment was acquired by the Police Jury and is reported in the District's financial statements.

Cost or Fair Market Value on the Date of Donation	<u>2009</u>	<u>2008</u>	<u>2007</u>
Land	\$ 27,500	\$ 27,500	\$ 27,500
Buildings	1,842,500	1,842,500	1,842,500
Furniture and equipment	<u>188,716</u>	<u>188,716</u>	<u>188,716</u>
 Total	 <u>2,058,716</u>	 <u>2,058,716</u>	 <u>2,058,716</u>
 <u>Accumulated Depreciation</u>			
Buildings	1,819,918	1,786,046	1,752,174
Furniture and equipment	<u>188,716</u>	<u>188,716</u>	<u>188,716</u>
 Total	 <u>2,008,634</u>	 <u>1,974,762</u>	 <u>1,940,890</u>
 Book value of property, plant and equipment	 \$ <u>50,082</u>	 \$ <u>83,954</u>	 \$ <u>117,826</u>

These assets were obtained in part with funds from a Hill-Burton grant of \$763,844. The Hill-Burton program has the ability to recapture a portion of the depreciated replacement cost of these assets should the facility be closed or not used by a qualified recipient.

NOTE 7 - ASSETS WHOSE USE IS LIMITED

Assets whose use is limited include certificates of deposit set aside by the Board of Commissioners for the following purposes:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Capital improvements	\$ 302,799	\$ -0-	\$ 56,516
LHA trust	200,490	200,490	219,780
Self-insured unemployment fund	<u>-0-</u>	<u>331,969</u>	<u>314,974</u>
 Total	 \$ <u>503,289</u>	 \$ <u>532,459</u>	 \$ <u>591,270</u>

FRANKLIN MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED APRIL 30, 2009, 2008 AND 2007

NOTE 8 - COMPENSATED ABSENCES

Employees of the District are entitled to paid days off and sick days depending on length of service. The District accrued \$247,401, \$223,997 and \$232,070 of vacation pay at April 30, 2009, 2008 and 2007. It is impracticable to estimate the amount of compensation for future unvested sick pay and, accordingly, no liability has been recorded in the accompanying financial statements. The District's policy is to recognize the cost of unvested sick pay when actually paid to employees.

NOTE 9 - LONG-TERM DEBT

A summary of long-term debt, including capital leases, at April 30, follows:

	<u>2008</u>		<u>Additions</u>		<u>Payments</u>		<u>2009</u>		<u>Due Within One Year</u>
Lease Payable - GE	\$ 692,050	\$	-0-	\$	129,507	\$	562,543	\$	144,051
Note Payable - Hibernia Bank	7,715		-0-		7,715		-0-		-0-
Lease Payable - Regions Bank	<u>90,230</u>		<u>-0-</u>		<u>90,230</u>		<u>-0-</u>		<u>-0-</u>
Total	\$ <u>789,995</u>	\$	<u>-0-</u>	\$	<u>227,452</u>	\$	<u>562,543</u>	\$	<u>144,051</u>

	<u>2007</u>		<u>Additions</u>		<u>Payments</u>		<u>2008</u>		<u>Due Within One Year</u>
Lease Payable - GE	\$ 196,687	\$	-0-	\$	196,687	\$	-0-	\$	-0-
Lease Payable - GE	-0-		766,730		74,680		692,050		129,507
Note Payable - Hibernia Bank	40,494		-0-		32,779		7,715		7,715
Lease Payable - Regions Bank	<u>90,230</u>		<u>-0-</u>		<u>-0-</u>		<u>90,230</u>		<u>21,604</u>
Total	\$ <u>327,411</u>	\$	<u>766,730</u>	\$	<u>304,146</u>	\$	<u>789,995</u>	\$	<u>158,826</u>

	<u>2006</u>		<u>Additions</u>		<u>Payments</u>		<u>2007</u>		<u>Due Within One Year</u>
Lease Payable - GE	\$ 315,312	\$	-0-	\$	118,625	\$	196,687	\$	122,929
Lease Payable - GE	18,090		-0-		18,090		-0-		-0-
Note Payable - Hibernia Bank	72,745		-0-		32,251		40,494		32,739
Lease Payable - Regions Bank	<u>-0-</u>		<u>90,230</u>		<u>-0-</u>		<u>90,230</u>		<u>21,604</u>
Total	\$ <u>406,147</u>	\$	<u>90,230</u>	\$	<u>168,966</u>	\$	<u>327,411</u>	\$	<u>177,272</u>

FRANKLIN MEDICAL CENTER
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED APRIL 30, 2009, 2008 AND 2007

NOTE 9 - LONG-TERM DEBT (Continued)

The following are the terms and due dates of the Hospital's long-term debt at April 30:

- Lease Payable with GE Healthcare Financial Services, at an interest rate of 10.7%, due in monthly installments with full repayment at September 1, 2012, secured by equipment with a cost of \$638,778 and book value of \$457,791 at April 30, 2009.

<u>Year Ending April 30</u>	<u>Capital Lease Obligations</u>	
	<u>Principal</u>	<u>Interest</u>
2010	\$ 144,051	\$ 53,216
2011	160,228	37,039
2012	178,222	19,045
2013	80,042	2,153
Totals	\$ 562,543	\$ 111,453

The assets and liabilities under capital leases are recorded at the fair value of the asset. The assets are depreciated over their estimated useful lives. Depreciation of assets under capital leases is included in depreciation expense.

NOTE 10 - NET PATIENT SERVICE REVENUES

The District has agreements with third-party payors that provide for payments to the District at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows.

Medicare - Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Certain outpatient services related to Medicare beneficiaries are paid based on a set fee per diagnosis with a hold harmless provision for partial cost reimbursement for some of these services until January 1, 2009, if not extended by Congress. The additional payments received under the hold harmless provision was \$519,073, \$507,112, and \$560,827 for the years ended April 30, 2009, 2008, and 2007, respectively. Swing bed services are reimbursed based on a prospectively determined rate per patient day.

Medicaid - Inpatient services are reimbursed based on a prospectively determined per diem rate. Some outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology, while others are paid prospectively based on a fee schedule. The District is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicaid fiscal intermediary. The District's Medicaid cost reports have been examined by the Medicaid fiscal intermediary through April 30, 2005.

FRANKLIN MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED APRIL 30, 2009, 2008 AND 2007

NOTE 10 - NET PATIENT SERVICE REVENUES (Continued)

Commercial - The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. Payment methods under these agreements include prospectively determined rates per discharge, discounts from established charges and prospectively determined per diem rates.

The following is a summary of the Hospital's net patient revenues for the years ended April 30:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Gross patient service revenues	\$ 24,419,338	\$ 23,758,312	\$ 23,953,070
Contractual adjustments	(8,827,778)	(9,926,491)	(8,250,591)
Provision for bad debts	(1,694,567)	(1,944,098)	(1,674,351)
Discounts	(504,832)	(109,287)	(86,505)
Uncompensated care reimbursement	<u>1,300,381</u>	<u>2,581,793</u>	<u>2,486,146</u>
Net patient service revenues	\$ <u>14,692,542</u>	\$ <u>14,360,229</u>	\$ <u>16,427,769</u>

The Hospital receives a substantial portion of its revenues from the Medicare and Medicaid programs at discounted rates. The following is a summary of Medicare and Medicaid patient revenues for the years ended April 30:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Medicare and Medicaid patient charges	\$ 18,774,616	\$ 17,351,913	\$ 17,724,066
Contractual adjustments	<u>(7,119,260)</u>	<u>(6,565,438)</u>	<u>(4,986,566)</u>
Program patient service revenue	\$ <u>11,655,356</u>	\$ <u>10,786,475</u>	\$ <u>12,737,500</u>
Percent of total gross patient charges	<u>77%</u>	<u>73%</u>	<u>74%</u>
Percent of total net patient revenues	<u>79%</u>	<u>75%</u>	<u>78%</u>

FRANKLIN MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED APRIL 30, 2009, 2008 AND 2007

NOTE 10 - NET PATIENT SERVICE REVENUES (Continued)

The Hospital received interim amounts of \$1,300,381, \$2,581,793, and \$2,486,146 for Medicaid and self-pay uncompensated care services (UCC) for the years ended April 30, 2009, 2008, and 2007, respectively, which represents 9%, 18%, and 15% of the net patient service revenues, respectively. The interim amounts received are based upon uncompensated cost incurred in previous years. Current regulations limit UCC to actual cost incurred by the Hospital in each state fiscal year. Any overpayments will be recouped by Medicaid after audit by Medicaid. The Hospital has made provisions for recoupment of \$130,000 for fiscal 2007 year. With the exception of 2007, management contends interim amounts paid reasonably estimate final settlement. To the extent management's estimates differ from actual results; the differences will be used to adjust income for the period when differences arise. Future UCC payments are dependent upon State appropriations, which require annual approval by the State legislature.

NOTE 11 - PROFESSIONAL LIABILITY RISK

The Hospital participates in the Louisiana Patient's Compensation Fund ("PCF") established by the State of Louisiana to provide medical professional liability coverage to healthcare providers. The fund provides for \$400,000 in coverage per occurrence above the first \$100,000 per occurrence for which the Hospital is at risk. The fund places no limitation on the number of occurrences covered. In connection with the establishment of the PCF, the State of Louisiana enacted legislation limiting the amount of healthcare provider settlement for professional liability to \$100,000 per occurrence and limited the PCF's exposure to \$400,000 per occurrence.

NOTE 12 - CONTINGENCIES

The District evaluates contingencies based upon the best available evidence. The District believes that no allowances for loss contingencies are considered necessary. To the extent that resolution of contingencies results in amounts which vary from the District's estimates, future earnings will be charged or credited.

The principal contingencies are described below:

Governmental Third-Party Reimbursement Programs (Note 10) - The Hospital is contingently liable for retroactive adjustments made by the Medicare and Medicaid programs as the result of their examinations as well as retroactive changes in interpretations applying statutes, regulations and general instructions of those programs. The amount of such adjustments cannot be determined.

Further, in order to continue receiving reimbursement from the Medicare program, the Hospital entered into an agreement with a government agent allowing the agent access to the Hospital's Medicare patient medical records for purposes of making medical necessity and appropriate level of care determinations. The agent has the ability to deny reimbursement for Medicare patient claims which have already been paid to the Hospital.

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participating requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers.

FRANKLIN MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED APRIL 30, 2009, 2008 AND 2007

NOTE 12 - CONTINGENCIES (Continued)

Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in compliance with fraud and abuse statutes as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

Professional Liability Risk (Note 11) - The Hospital is contingently liable for losses from professional liability not underwritten by the Louisiana Patient's Compensation Fund or the Hospital's insurance carrier.

The Hospital also participates in the Franklin Medical Center Employee Benefit Plan and Trust. If the fund's assets are not adequate to cover the claims made against it, the Hospital will be assessed its pro rata share of the resulting deficit. It is not possible to estimate the amount of additional assessments, if any. Accordingly, the Hospital is contingently liable for assessments by the Louisiana Hospital Association Trust Fund. The District has acquired stop-loss insurance to cover individual claims exceeding \$30,000 or aggregate claims exceeding \$1,000,000 per year.

NOTE 13 - PENSION PLAN

The District has a defined contribution pension plan. The plan is administered by The Pension Company who holds all plan assets. All of the employees over the age of 21 are eligible to participate in the plan. Employees can elect to contribute up to 22% of their annual salaries and the District matches the first 3% of the employees' contributions. Actual contributions made by the District for the years ended April 30, 2009, 2008 and 2007 were \$83,420, \$100,740, and \$88,005.

NOTE 14 - COMMISSIONERS

The following commissioners served Franklin Medical Center without compensation during the year ended April 30, 2009:

Nicholas Poulos
Michael Wright
Paul Price, Jr.
Dr. Jan Hicks
Dan Warner

NOTE 15 - OPERATING LEASES

Leases that do not meet the criteria for capitalization are classified as operating leases with related rental charged to operations as incurred. The following is a schedule by year of future minimum lease payments under operating leases as of April 30, 2009, that have initial or remaining lease terms in excess of one year.

FRANKLIN MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED APRIL 30, 2009, 2008 AND 2007

NOTE 15 - OPERATING LEASES (Continued)

<u>Year Ending April 30.</u>	<u>Amount</u>
2010	\$ 108,000
2011	99,000
2012	<u>27,000</u>
Total minimum lease payments	\$ <u>234,000</u>

NOTE 16 - GRANT REVENUE

On December 22, 2008, the Hospital entered into a Hospital Information System Funding Agreement with the Rural Hospital Coalition, Inc. (RHC), whereby the RHC shall provide to the Hospital an amount not to exceed \$1,000,000 from State of Louisiana appropriated funds for use in purchasing computer hardware, software and related services to create a health information system (HIS) and participate in the Louisiana Rural Health Information Exchange (LARHIX) system, a cooperative endeavor with the RHC, the Louisiana Department of Health and Hospitals (DHH), and Louisiana State University Health Sciences Center-Shreveport (LSUHSC-S). The Hospital expended and has recognized \$302,799 as capital grant income in the fiscal period ended April 30, 2009. If the Hospital fails, as determined solely by the RHC and DHH, to implement the HIS or fully participate in LARHIX, the computer vendor shall transfer written notice and to the extent possible the HIS or any portion thereof to a replacement hospital selected by the RHC and DHH.

NOTE 17 - SUBSEQUENT EVENTS

Events have been evaluated through October 19, 2009, for subsequent event disclosure. This date is the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

FRANKLIN MEDICAL CENTER
SCHEDULES OF NET PATIENT SERVICE REVENUES
YEARS ENDED APRIL 30,

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Routine Services:			
Adults and pediatric	\$ 2,518,456	\$ 2,094,681	\$ 2,002,950
Intensive care unit	165,000	143,750	244,375
Swing bed	97,650	94,100	31,600
Psychiatric	<u>-0-</u>	<u>54,155</u>	<u>871,820</u>
Total	<u>2,781,106</u>	<u>2,386,686</u>	<u>3,150,745</u>
Other Professional Services:			
Operating room			
Inpatient	68,065	231,139	255,932
Outpatient	<u>415,326</u>	<u>441,391</u>	<u>296,118</u>
Total	<u>483,391</u>	<u>672,530</u>	<u>552,050</u>
Recovery room			
Inpatient	11,550	35,550	65,100
Outpatient	<u>83,175</u>	<u>88,800</u>	<u>106,575</u>
Total	<u>94,725</u>	<u>124,350</u>	<u>171,675</u>
Anesthesia			
Inpatient	33,578	102,472	189,706
Outpatient	150,409	173,371	217,125
Total	<u>183,987</u>	<u>275,843</u>	<u>406,831</u>
Radiology			
Inpatient	1,431,654	1,315,549	1,070,826
Outpatient	<u>3,141,891</u>	<u>2,943,890</u>	<u>2,368,291</u>
Total	<u>4,573,545</u>	<u>4,259,439</u>	<u>3,439,117</u>
Laboratory			
Inpatient	1,224,218	976,508	1,039,581
Outpatient	<u>1,816,437</u>	<u>1,657,673</u>	<u>1,305,455</u>
Total	<u>\$ 3,040,655</u>	<u>\$ 2,634,181</u>	<u>\$ 2,345,036</u>

FRANKLIN MEDICAL CENTER
SCHEDULES OF NET PATIENT SERVICE REVENUES (Continued)
YEARS ENDED APRIL 30,

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Blood			
Inpatient	\$ 146,520	\$ 174,356	\$ 71,913
Outpatient	<u>46,680</u>	<u>56,867</u>	<u>22,343</u>
Total	<u>193,200</u>	<u>231,223</u>	<u>94,256</u>
Respiratory care			
Inpatient	2,815,636	2,709,488	2,080,475
Outpatient	<u>227,327</u>	<u>187,602</u>	<u>122,601</u>
Total	<u>3,042,963</u>	<u>2,897,090</u>	<u>2,203,076</u>
Physical therapy			
Inpatient	20,417	13,353	19,836
Outpatient	<u>227</u>	<u>(137)</u>	<u>229</u>
Total	<u>20,644</u>	<u>13,216</u>	<u>20,065</u>
EKG			
Inpatient	155,273	130,437	88,792
Outpatient	<u>215,767</u>	<u>197,369</u>	<u>79,725</u>
Total	<u>371,040</u>	<u>327,806</u>	<u>168,517</u>
Central supply			
Inpatient	365,068	516,561	597,578
Outpatient	<u>252,039</u>	<u>327,777</u>	<u>301,365</u>
Total	<u>617,107</u>	<u>844,338</u>	<u>898,943</u>
Pharmacy			
Inpatient	2,146,342	2,259,481	2,606,961
Outpatient	<u>465,072</u>	<u>499,893</u>	<u>546,846</u>
Total	<u>\$ 2,611,414</u>	<u>\$ 2,759,374</u>	<u>\$ 3,153,807</u>

FRANKLIN MEDICAL CENTER
SCHEDULES OF NET PATIENT SERVICE REVENUES (Continued)
YEARS ENDED APRIL 30,

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Intensive outpatient program	\$ <u>875,157</u>	\$ <u>873,996</u>	\$ <u>1,177,065</u>
Emergency room			
Inpatient	402,689	397,715	521,372
Outpatient	<u>2,144,525</u>	<u>2,197,359</u>	<u>2,413,202</u>
Total	<u>2,547,214</u>	<u>2,595,074</u>	<u>2,934,574</u>
Observation room			
Inpatient	13,075	10,450	7,881
Outpatient	<u>100,075</u>	<u>73,225</u>	<u>62,325</u>
Total	<u>113,150</u>	<u>83,675</u>	<u>70,206</u>
Rural health clinic - outpatient	<u>2,839,226</u>	<u>2,757,503</u>	<u>3,130,550</u>
Ambulance			
Inpatient	3,524	648	5,618
Outpatient	<u>27,290</u>	<u>21,340</u>	<u>30,939</u>
Total	<u>30,814</u>	<u>21,988</u>	<u>36,557</u>
Total Other Professional Services	<u>21,638,232</u>	<u>21,371,626</u>	<u>20,802,325</u>
Gross Patient Service Charges	<u>24,419,338</u>	<u>23,758,312</u>	<u>23,953,070</u>
Allowances and Uncollectibles:			
Contractual adjustments	8,827,778	9,926,491	8,250,591
Provision for bad debts	1,694,567	1,944,098	1,674,351
Charity care and policy discounts	504,832	109,287	86,505
Uncompensated care reimbursement	<u>(1,300,381)</u>	<u>(2,581,793)</u>	<u>(2,486,146)</u>
Total Allowances and Uncollectibles	<u>9,726,796</u>	<u>9,398,083</u>	<u>7,525,301</u>
Net Patient Service Revenue	\$ <u>14,692,542</u>	\$ <u>14,360,229</u>	\$ <u>16,427,769</u>

FRANKLIN MEDICAL CENTER
 SCHEDULES OF OTHER OPERATING REVENUES
 YEARS ENDED APRIL 30,

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Cafeteria sales	\$ 56,334	\$ 60,781	\$ 61,552
Vending machine commission	2,397	4,523	3,935
Physician office rentals	116,027	289,157	117,687
Medical records abstract fees	16,073	15,603	12,488
Miscellaneous revenue	<u>24,742</u>	<u>49,894</u>	<u>22,283</u>
Total other operating revenue	\$ <u>215,573</u>	\$ <u>419,958</u>	\$ <u>217,945</u>

FRANKLIN MEDICAL CENTER
SCHEDULES OF OPERATING EXPENSES – SALARIES AND BENEFITS
YEARS ENDED APRIL 30,

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Personnel	\$ 28,509	\$ 63,186	\$ 51,856
Administration	1,274,699	1,334,105	1,204,841
Plant operations and maintenance	202,813	197,798	219,729
Housekeeping	150,671	137,490	169,276
Dietary and cafeteria	183,194	72,247	181,829
Nursing administration	114,283	122,438	100,295
Medical records	243,126	235,308	230,958
Nursing services, acute care	1,011,117	990,118	1,222,316
Nursing services, intensive care unit	318,446	355,636	276,955
Nursing services, psychiatric unit	-0-	41,181	432,865
Operating room	152,596	183,289	200,978
Radiology	346,184	346,777	329,109
Respiratory care	362,148	401,908	327,067
Intensive outpatient program	181,719	154,568	179,725
Emergency room	617,782	547,172	517,378
Rural health clinic	1,145,739	1,238,125	1,274,315
Transportation	36,366	39,432	37,097
Private physician office	<u>33,162</u>	<u>2,842</u>	<u>-0-</u>
 Total salaries	 <u>6,402,554</u>	 <u>6,463,620</u>	 <u>6,956,589</u>
 Payroll taxes	 483,277	 476,080	 496,627
Health insurance	972,334	1,157,289	1,255,847
Pension plan	83,420	100,740	88,005
Other	<u>116,016</u>	<u>102,514</u>	<u>106,344</u>
 Total benefits	 <u>1,655,047</u>	 <u>1,836,623</u>	 <u>1,946,823</u>
 Total salaries and benefits	 <u>\$ 8,057,601</u>	 <u>\$ 8,300,243</u>	 <u>\$ 8,903,412</u>

FRANKLIN MEDICAL CENTER
SCHEDULES OF OPERATING EXPENSES – PROFESSIONAL FEES
YEARS ENDED APRIL 30,

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Nursing service	\$ 7,109	\$ 2,978	\$ 10,868
Psychiatric unit	-	8,066	87,033
Operating room	3,497	3,074	3,346
Anesthesiology	129,848	307,692	320,041
Radiology	380,048	328,257	128,873
Laboratory	781,971	731,906	771,468
Respiratory therapy	6,680	2,880	2,693
Physical therapy	8,770	6,450	8,802
IOP	75,016	77,433	55,085
Emergency room	680,592	560,914	775,644
Rural health clinic	<u>353,704</u>	<u>392,519</u>	<u>383,479</u>
 Total professional fees	 \$ <u>2,427,235</u>	 \$ <u>2,422,169</u>	 \$ <u>2,547,332</u>

FRANKLIN MEDICAL CENTER
SCHEDULES OF OPERATING EXPENSES – OTHER EXPENSES
YEARS ENDED APRIL 30,

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Management fees	\$ -0-	\$ 39,322	\$ 372,672
Miscellaneous service fees	886,275	1,309,252	1,022,806
Legal and accounting	61,843	34,200	106,163
Supplies	295,249	216,035	309,906
Minor equipment	33,620	18,105	32,710
Repairs and maintenance	109,544	124,046	193,942
Utilities	375,420	365,848	311,016
Telephone	93,696	75,761	68,856
Travel	40,786	42,394	60,607
Rentals	500,404	456,231	367,132
Education	30,529	51,436	34,018
Dues and subscriptions	160,231	115,861	121,366
Recruitment and advertising	30,176	45,871	2,423
Miscellaneous	<u>48,448</u>	<u>74,072</u>	<u>130,365</u>
 Total other expenses	 \$ <u>2,666,221</u>	 \$ <u>2,968,434</u>	 \$ <u>3,133,982</u>



LESTER, MILLER & WELLS

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Commissioners
Hospital Service District No. 1
Parish of Franklin
Winnsboro, Louisiana

We have audited the financial statements of Hospital Service District No. 1, Parish of Franklin ("Franklin Medical Center"), a component unit of the Franklin Parish Police Jury, as of and for the years ended April 30, 2009, 2008 and 2007, and have issued our report thereon dated October 19, 2009. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Franklin Medical Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Franklin Medical Center's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Hospital's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Hospital's financial statements that is more than inconsequential will not be prevented or detected by the Hospital's internal control. We consider the deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting: 2008-01.

Board of Commissioners
Hospital Service District No. 1
Parish of Franklin
Winnsboro, Louisiana
Page Two

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Hospital's internal control. We believe that the following deficiencies constitute material weaknesses: 2009-01 and 2009-02.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Franklin Medical Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matter that is required to be reported under Government Auditing Standards and that are described in the accompanying schedule of findings and responses as items 2009-01, 2009-02 and 2008-03.

The Hospital's response to the findings identified in our audit is described in the accompanying schedule of findings. We did not audit Franklin Medical Center's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of the Board of Commissioners, Management and the Office of the Legislative Auditor of the State of Louisiana and is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Lester, Miller & Wells

Certified Public Accountant
Alexandria, Louisiana
October 19, 2009



FRANKLIN MEDICAL CENTER
AUDITORS' SCHEDULE OF FINDINGS
YEAR ENDED APRIL 30, 2009

Current Year Findings

Internal Control

2009-01

Finding: During our examination of journal entries, several entries posted did not contain support or descriptions. Additionally, these entries were not approved by a supervisor. We noted one entry posted backwards multiple times resulting in cash and grant revenue being understated by approximately \$1 million.

Recommendation: All journal entries should be described clearly and contain supporting information which can be understood by a third party without any assistance. The journal entries should be approved before input in the system.

Response: Future entries will be documented and approved by a supervisor.

2009-02

Finding: The financial statements presented to the Board contained various changes from the internal computer generated statements. The changes were not incorporated into the Hospital's computer system. The financials presented to the Board contained a profit, while the computer system had a loss of approximately \$600,000.

Recommendation: All changes to financial statements should be documented and recorded into the Hospital's information system.

Response: All entries are being recorded and the financials presented to the Board come directly from the Hospital's computer system.

Prior Years' Findings

Internal Control

2008-01

Finding: Various accounts, such as investments, checking accounts, and prepaids, were not adjusted on a monthly basis. Without these entries, the financial statements are incomplete and inaccurate.

Recommendation: During the monthly close, balance sheet accounts should be reconciled and adjusted before issuing financial statements to the Board.

Response: Prior to April of 2008, the accounting department was staffed with individuals without adequate experience and training to perform the necessary accounting and reconciliations necessary to make these adjustments. In April 2008, we hired an accounting manager with the experience and training required to prepare the necessary reconciliations and post the appropriate adjustments.

Resolution: This matter has not been resolved.

FRANKLIN MEDICAL CENTER
AUDITORS' SCHEDULE OF FINDINGS
YEAR ENDED APRIL 30, 2009

Prior Years' Findings (Continued)

Internal Control (Continued)

2008-02

Finding: The credit balance for accounts receivable grew from \$59,475 at April 30, 2007 to \$114,929 at April 30, 2008.

Recommendation: We recommend the Hospital assign the duty of investigating credit balances on patient accounts to one person who will make necessary adjustments to or timely refunds of the balances as needed on a monthly basis.

Response: The Hospital does have individuals who investigate credit balances and prepare proposed adjustments and patient refunds. However, during the spring of 2008, the new hospital CFO noted that the adjustments were prepared and posted without an adequate separation of duties or necessary backup for the proposed adjustments. As a result of the transition to improved accounting practices there was a delay in processing adjustments to these credit balances. Currently, the Hospital prepares adjustments and refunds on a timely basis.

Resolution: This matter has not been resolved.

2007-01

Finding: In the past, the auditors were able to draft the financial statements with management accepting responsibility. Effective for financial statements ending on or after December 15, 2006, Statements on Auditing Standards 112 more definitely requires management ensure the propriety and completeness of the financial statements and related footnotes. The staff responsible for preparation of the financial statements and related footnote disclosures in accordance with generally accepted accounting principles (GAAP) lacks the knowledge and/or resources necessary to internally complete the reporting requirements.

Recommendation: Management should either: (a) obtain the knowledge and/or resources necessary to internally prepare or review the auditors' preparation of the Hospital's basic financial statements and related footnote disclosures in accordance with GAAP, or (b) determine if the cost of "a" overrides the benefit of correcting this control deficiency.

Response: Management has considered the recommendation and concluded that the implementation cost is greater than the benefit derived from correcting the control deficiency.

Resolution: This matter has not been resolved.

2007-02

Finding: Due to a limited number of available employees, there is not a complete segregation of duties in all accounting, recording, and custody functions.

FRANKLIN MEDICAL CENTER
AUDITORS' SCHEDULE OF FINDINGS
YEAR ENDED APRIL 30, 2009

Prior Years' Findings (Continued)

Internal Control (Continued)

Recommendation: We recommend that duties be segregated to the extent possible to prevent both intentional and unintentional errors. Segregation includes 1) separating transaction authorization from custody of related asset; 2) separating transaction recording from general ledger posting and maintenance; 3) separating operations responsibility from record-keeping. Where these segregations are not possible, we recommend close supervision and review.

Response: Management will continue to segregate duties as much as possible and will closely supervise and review duties to prevent errors.

Resolution: This matter has not been resolved.

2007-03

Finding: The Hospital entered into a capital lease transaction, however the asset and related debt was not recorded.

Recommendation: We recommend recording the asset and related debt on loan and capital lease transactions after the execution of the loan or lease document.

Response: Management will record future debt after entering into such transactions.

Resolution: This matter has been resolved.

Current Year Findings

Compliance

2009-03

Finding: A certificate of deposit, which was restricted as to use by the Board, was used without the approval of the Board.

Recommendation: We recommend that a schedule of restricted investments be presented to the Board on a monthly basis. Additionally, restricted investments should not be used without Board approval.

Response: Management will seek Board approval before closing out any accounts that were previously restricted by the Board.

2009-04

Finding: Three of the Hospital's contracts did not contain signatures of the third party.

Recommendation: All contracts on file should be signed by all parties.

Response: Future agreements will be signed and the Hospital will obtain signatures on older agreements.

FRANKLIN MEDICAL CENTER
AUDITORS' SCHEDULE OF FINDINGS
YEAR ENDED APRIL 30, 2009

Current Year Findings (Continued)

Compliance (Continued)

2009-05

Finding: An operating budget and three year capital budget approved by the Board of Commissioners and utilized in the presentation of the monthly financial statements is required under the conditions of participation for Medicare. The Hospital did not have its budget approved by the Board or incorporated into the monthly financial statements.

Recommendation: We recommend that the budget is approved by the Board and utilized on a monthly basis when presenting the financials to the Board.

Response: We will implement the recommendation.

Prior Years' Findings

Compliance

2008-03

Finding: We found under-collateralized cash balances at one bank. Louisiana state statutes require that all deposits of a governmental entity be protected by insurance or collateral. Under-secured balances increase the custodial credit risk of the entity.

Recommendation: Management should verify the amount of FDIC insurance and pledged securities at each bank during the year to ensure all cash balances are properly protected.

Response: The bank failed to provide adequate security coverage to insure all deposits on hand. In the future we will verify that the bank maintains adequate collateral to protect securities on hand.

Resolution: This matter has been resolved.

2007-04

Finding: The former chief financial officer charged approximately \$9,800 of personal use items to the Hospital's credit card. Previous credit card statements were approved by the chief financial officer.

Recommendation: We recommend the Hospital turn this matter over to the local District Attorney's office. Additionally administrative expenses should be approved either by the Board chairman or the financial committee.

Response: Management has turned the matter over to the local District Attorney's office. Future expense reports and credit card statement of management will be reviewed and approved by the Finance Committee.

Resolution: This matter has been resolved.